

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Cheboygan County Road Commission	County Cheboygan
Audit Date 12/31/04	Opinion Date 2/18/05	Date Accountant Report Submitted to State: 6/6/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.


We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			✓
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) Stewart, Beauvais & Whipple PC			
Street Address 1979 Holland Avenue		City Port Huron	State MI
		ZIP 48060	
Accountant Signature 			Date 6/6/05

CHEBOYGAN COUNTY ROAD COMMISSION
A Component Unit of Cheboygan County, Michigan

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CHEBOYGAN COUNTY ROAD COMMISSION

A Component Unit of Cheboygan County, Michigan

ANNUAL FINANCIAL STATEMENTS

WITH

SUPPLEMENTARY INFORMATION

FOR THE YEAR ENDED DECEMBER 31, 2004

Stewart,
Beauvais
& Whipple P.C.

CERTIFIED PUBLIC ACCOUNTANTS



INDEPENDENT AUDITOR'S REPORT

To the Board of County Road Commissioners
of Cheboygan County
Indian River, Michigan

We have audited the accompanying basic financial statements of the Road Commission of Cheboygan County, Michigan, a component unit of Cheboygan County, Michigan as of December 31, 2004 and for the year then ended. These financial statements are the responsibility of the Road Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Road Commission of Cheboygan County, Michigan, as of December 31, 2004, and the results of its operations for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report, dated February 18, 2005, on our consideration of the Road Commission of Cheboygan County, Michigan's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting over compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be considered in assessing the results of our audit.

The accompanying management's discussion and analysis on pages 3-7 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying financial information listed as supplementary financial data in the Table of Contents is presented for purpose of additional analysis and is not a required part of the basic financial statements of the Road Commission of Cheboygan County, Michigan. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Certified Public Accountants

February 18, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Cheboygan County Road Commission, we offer readers of these financial statements this narrative, overview and analysis of the financial activities of the Road Commission for the year ended December 31, 2004. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities and to identify any significant changes in financial position.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to provide a basis of understanding of the Cheboygan County Road Commission's basic financial statements. These basic financial statements comprise three components: (1) government-wide financial statements, (2) fund (governmental) financial statements, and (3) notes to the financial statements. Supplementary financial information is also provided for additional information purposes.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the Cheboygan County Road Commission's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the Cheboygan County Road Commission's assets and liabilities, with the differences between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Road Commission is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Governmental Fund Financial Statements

Unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds financial statements with similar information presented for government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near term financing decisions.

Both the governmental fund balance sheet/statement of net assets and the governmental fund statements of revenues, expenditures, and changes in fund balance/ statement of activities provide a reconciliation to facilitate this comparison between governmental funds and the government-wide financial statements.

The Cheboygan County Road Commission adopts an annual appropriated budget for the operating fund. A budgetary comparison statement has been provided to demonstrate compliance with this budget.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and governmental fund financial statements. The notes to the financial statements can be found on pages 11 to 23 of this report.

FINANCIAL HIGHLIGHTS

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. As shown on the chart below, the Road Commission's assets exceeded liabilities by \$19,915,620 at December 31, 2004.

The net assets are separated into three major components, investment in capital assets of \$18,096,905 or 90.87% of net assets, restricted net assets of \$1,340,159 or 6.73% and finally unrestricted net assets of \$478,556 or 2.40%. The investment in capital assets of the Road Commission reflects its investment in capital assets (i.e. land, buildings, vehicles, equipment and infrastructure), less any related debt used to acquire those assets that is still outstanding. The Road Commission used these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Road Commission's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The restricted net assets are the net assets that resulted from Primary and Local Road activities that are restricted by the Michigan Department of Transportation to be used on the respective Primary and Local Roads. The remaining balance of unrestricted net assets may be used to meet the Road Commission's ongoing obligations to citizens and creditors.

At the end of the current year, the Road Commission is able to report positive balances in all three categories (invested in capital assets, net of related debt, and unrestricted net assets). The Road Commission's combined net assets increased \$1,103,274 from a year ago.

The following table presents a comparison of the net assets at December 31, 2004 and 2003 in a condensed format:

Condensed Statement of Net Assets	<u>2004</u>	<u>2003</u>
Assets -		
Current and other unrestricted assets	\$ 2,958,375	\$ 2,374,353
Capital Assets	<u>21,156,905</u>	<u>17,393,651</u>
Total Assets	<u>24,115,280</u>	<u>19,768,004</u>
Liabilities -		
Long-term liabilities	3,387,610	294,882
Other liabilities	<u>812,050</u>	<u>660,776</u>
Total Liabilities	<u>4,199,660</u>	<u>995,658</u>
Net Assets -		
Invested in capital assets, net of related debt	18,096,905	17,393,651
Restricted	1,340,159	1,169,813
Unrestricted	<u>478,556</u>	<u>248,882</u>
Total Net Assets	<u>\$ 19,915,620</u>	<u>\$ 18,812,346</u>

The following table presents a comparison of revenues expenses and changes in net assets for the year ended December 31, 2004 and 2003 in a condensed format:

Condensed Statement of Activities		
Revenues		
Federal Sources	\$ 1,107,720	\$ 903,692
State Sources	4,317,951	4,101,940
Local Sources	570,673	735,015
Charges for Services and Other	<u>2,062,964</u>	<u>1,810,501</u>
	<u>8,059,308</u>	<u>7,551,148</u>
Expenses		
Maintenance	5,209,240	4,710,541
Administration	336,715	220,936
Equipment (net)	(264,635)	(429,415)
Other	82,192	8,697
Depreciation	<u>1,592,522</u>	<u>1,531,175</u>
	<u>6,956,034</u>	<u>6,041,934</u>
Change in Net Assets	<u>\$ 1,103,274</u>	<u>\$ 1,509,214</u>

Financial Analysis of Governmental Fund Financial Statements

As noted earlier, the focus of the governmental fund financial statements is to provide information on the near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Road Commission's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current year, the Road Commission reported an ending fund balance of \$1,991,556, an increase of \$519,784 from the prior year. Approximately 32.71% or \$651,397 of the fund balance constitutes unreserved fund balance, which is available for spending at the Road Commission's discretion. The remainder of the fund balance of \$1,340,159 is reserved for expenditures related to primary and local roads as required by the Michigan Department of Transportation.

BUDGETARY HIGHLIGHTS

The Road Commission amended its 2004 budget to reflect status changes in construction, heavy maintenance and maintenance projects, as well as the sale of bonds to construct a new garage with administrative offices. The final budget was \$4,290,976 greater in revenue, and \$4,288,482 greater in expenditures than the original budget primarily for these reasons. The actual adjusted 2004 revenues were approximately \$124,524 more than the amended budget, which is 1.13% over budget. The actual adjusted expenditures were \$392,766 less than the amended budget, which was 3.55% under budget. The actual excess of revenues and other sources over expenditures was \$517,290 more than the amended budget amount.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets - The Road Commission had \$21,156,905 in capital assets at the end of the year, representing an increase of \$3,763,254 or 21.64% from the previous year. The reason for the increase from the previous year was the completion of the new facility, and the capitalization of heavy maintenance road and bridge projects funded by federal, state and local revenues. A summary of capital assets net of accumulated depreciation at December 31, 2004 in comparison to the previous year is as follows:

	<u>2004</u>	<u>2003</u>
Land, Improvements and Right-of-Ways	\$ 7,266,491	\$ 6,578,158
Buildings and Improvements	2,586,451	125,088
Equipment	1,621,343	1,842,193
Depletable Assets	11,753	11,753
Infrastructure	<u>9,670,867</u>	<u>8,836,459</u>
Total Capital Assets	<u>\$ 21,156,905</u>	<u>\$ 17,393,651</u>

Additional information on the Road Commission's capital assets activity may be found in Note 7 to the financial statements.

Long-Term Liabilities – During the current year, the Road Commission issued \$3,060,000 in bonds. The bond issue is backed by the full faith and credit of Cheboygan County. The total debt was issued in anticipation of and payable from State collected taxes returned to the Road Commission from the Michigan Transportation Fund for highway construction, construction and work incidental thereto. A summary of the Motor Transportation Debt is as follows:

Michigan Transportation Bonds – Series 2004	\$3,060,000
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Additional information on the Road Commission's long-term liabilities may be found in Note 8 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The majority of Commission revenue streams are fairly stable. Long-term state fiscal crises are affecting local abilities to provide increased levels of maintenance. Long-term crises are also affecting cost sharing programs currently in effect with township transportation partners. Potential legislative relief in terms of a tax increase seems unlikely due to the economical conditions at the State level, that could help to improve resource allocations to maintenance and improvement efforts.

Our 2005 budget is programmed for revenues decreasing in most areas by a total of approximately \$800,000 in addition to the bond proceeds received in 2004. Expenditures will increase in areas of road improvement efforts and surface preservation. Expenditures are also planned to decrease during the year the same as revenue. It is anticipated our fund equity will remain the same at December 31, 2005 as 2004.

CONTACTING THE ROAD COMMISSION MANAGEMENT

This financial report is designed to provide a general overview of the Cheboygan County Road Commission's finances and to show accountability. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the Cheboygan County Road Commission, 5302 South Straits Hwy, Indian River, Michigan, 49749.

BASIC FINANCIAL STATEMENTS

CHEBOYGAN COUNTY ROAD COMMISSION
A Component Unit of Cheboygan County, Michigan

GOVERNMENTAL FUND BALANCE SHEET/STATEMENT OF NET ASSETS
DECEMBER 31, 2004

	Governmental Fund	Adjustments (Note 2)	Statement of Net Assets
ASSETS			
Cash and cash equivalents	\$ 960,678	\$ -	\$ 960,678
Due from other governmental units -			
State	1,013,772	-	1,013,772
Local	18,550	-	18,550
Accounts receivable	368	-	368
Prepaid expenditures/expenses	-	240,489	240,489
Inventory	724,518	-	724,518
Capital assets, net of accumulated depreciation			
Assets not being depreciated	-	7,266,491	7,266,491
Assets being depreciated	-	13,890,414	13,890,414
Total Assets	<u>\$ 2,717,886</u>	<u>\$ 21,397,394</u>	<u>\$ 24,115,280</u>
LIABILITIES AND FUND EQUITY			
Liabilities:			
Accounts payable	\$ 129,593	\$ -	\$ 129,593
Accrued liabilities	106,320	-	106,320
Accrued interest payable	-	85,720	85,720
Due to other governmental units	1,961	-	1,961
Advances and deposits	488,456	-	488,456
Bonds and notes payable, due within one year	-	55,000	55,000
Bonds and notes payable, due in more than one year	-	3,005,000	3,005,000
Long-term accrued vacation and sick	-	327,610	327,610
Total Liabilities	<u>726,330</u>	<u>3,473,330</u>	<u>4,199,660</u>
Fund Balance:			
Fund Balance -			
Reserved -			
Primary/Local Roads	1,340,159	(1,340,159)	-
Unreserved -			
Undesignated	651,397	(651,397)	-
Total Fund Balance	<u>1,991,556</u>	<u>(1,991,556)</u>	<u>-</u>
Total Liabilities and Fund Balance	<u>\$ 2,717,886</u>		
Net Assets:			
Invested in capital assets net of related debts		18,096,905	18,096,905
Restricted -			
Primary/Local Roads		1,340,159	1,340,159
Unrestricted		478,556	478,556
Total Net Assets		<u>\$ 19,915,620</u>	<u>\$ 19,915,620</u>

See Notes to Financial Statements

CHEBOYGAN ROAD COMMISSION
A Component Unit of Cheboygan County, Michigan

**STATEMENT OF GOVERNMENTAL FUND REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE/STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Governmental Fund	Adjustments (Note 2)	Statement of Activities
Revenues:			
Permits	\$ 51,395		\$ 51,395
Intergovernmental -			
Federal sources	1,107,720		1,107,720
State sources	4,317,951		4,317,951
Local sources	634,799	(64,126)	570,673
Charges for services	1,994,073		1,994,073
Interest and rents	20,377		20,377
Other	(2,881)		(2,881)
Total Revenues	8,123,434	(64,126)	8,059,308
Other Financing Sources:			
Bond Proceeds	3,060,000	(3,060,000)	-
Total Revenues and Other Sources	11,183,434	(3,124,126)	8,059,308
Expenditures/Expenses:			
Current -			
Primary heavy maintenance	1,313,273	(1,313,273)	-
Local heavy maintenance	977,351	(977,351)	-
Primary maintenance	1,313,701	17,511	1,331,212
Local maintenance	1,913,311	75,625	1,988,936
State maintenance	1,889,092		1,889,092
Administrative	351,737	(15,022)	336,715
Equipment	2,554,503	(715,130)	1,839,373
Less equipment rental			
charged to other activities	(2,104,008)	-	(2,104,008)
Depreciation	-	1,592,522	1,592,522
Capital Outlay	3,097,282	(3,097,282)	-
Less: depreciation credit			
and retirements	(732,033)	732,033	-
Debt Service -			
Interest	89,441	(7,249)	82,192
Total Expenditures/Expenses	10,663,650	(3,707,616)	6,956,034
Excess of revenues over expenditures/expenses	519,784	583,490	1,103,274
Fund Balance/Net Assets at January 1, 2004	1,471,772	17,340,574	18,812,346
Fund Balance/Net Assets at December 31, 2004	<u>\$ 1,991,556</u>	<u>\$ 17,924,064</u>	<u>\$ 19,915,620</u>

See Notes to Financial Statements

CHEBOYGAN COUNTY ROAD COMMISSION
A Component Unit of Cheboygan County, Michigan

**STATEMENT OF GOVERNMENTAL FUND REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Original Budget	Amended Budget	Actual	Variance with Amended Budget Positive (Negative)
Revenues:				
Permits	\$ 50,000	\$ 51,310	\$ 51,395	\$ 85
Intergovernmental -				
Federal sources	1,332,197	1,336,652	1,107,720	(228,932)
State sources	3,739,887	3,991,527	4,317,951	326,424
Local sources	371,474	536,872	634,799	97,927
Charges for services	1,229,376	1,972,892	1,994,073	21,181
Interest and rents	45,000	109,657	20,377	(89,280)
Other	-	-	(2,881)	(2,881)
Total Revenues	<u>6,767,934</u>	<u>7,998,910</u>	<u>8,123,434</u>	<u>124,524</u>
Other Financing Sources:				
Bond Proceeds	<u>-</u>	<u>3,060,000</u>	<u>3,060,000</u>	<u>-</u>
Total Revenues and Other Sources	<u>6,767,934</u>	<u>11,058,910</u>	<u>11,183,434</u>	<u>124,524</u>
Expenditures:				
Current -				
Primary heavy maintenance	1,332,381	1,461,384	1,313,273	148,111
Local heavy maintenance	708,313	692,749	977,351	(284,602)
Primary maintenance	1,264,431	1,317,362	1,313,701	3,661
Local maintenance	1,449,083	1,978,182	1,913,311	64,871
State maintenance	1,229,376	1,972,892	1,889,092	83,800
Administrative	220,000	246,648	351,737	(105,089)
Equipment - net	-	-	450,495	(450,495)
Capital Outlay - net	564,350	3,294,230	2,365,249	928,981
Debt Service	-	92,969	89,441	3,528
Total Expenditures	<u>6,767,934</u>	<u>11,056,416</u>	<u>10,663,650</u>	<u>392,766</u>
Excess of revenues and other sources over expenditures	-	2,494	519,784	517,290
Fund Balance at January 1, 2004	<u>1,471,772</u>	<u>1,471,772</u>	<u>1,471,772</u>	<u>-</u>
Fund Balance at December 31, 2004	<u>\$ 1,471,772</u>	<u>\$ 1,474,266</u>	<u>\$ 1,991,556</u>	<u>\$ 517,290</u>

See Notes to Financial Statements

CHEBOYGAN COUNTY ROAD COMMISSION
A Component Unit of Cheboygan County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting methods and procedures adopted by the Cheboygan County Road Commission conform to accounting principles generally accepted in the United States of America as applied to governmental entities. The following Notes to the Financial Statements are an integral part of the Road Commission's basic financial statements.

A. Description of Road Commission Operations –

The Cheboygan County Road Fund, referred to as the Road Commission, is a Component Unit of the County of Cheboygan, Michigan, and is used to control the expenditure of revenues from the State distribution of gas and weight taxes, Federal Financial Assistance, reimbursements from the Department of State Highways for work performed by the County on State trunklines and contributions from other local units of government for work performed by the Road Commission workforce. The Road Fund is the only fund of the Road Commission.

The Road Commission, which is established pursuant to the County Road Law (MCL224.1), operates under an elected Board of three (3) County Road Commissioners who establish policies and review operations of the Road Commission. The Road Commission provides service to nineteen (19) Townships in Cheboygan County and maintains 1,127 miles of state, local and primary roads.

B. Measurement Focus, Basis of Accounting and Financial Statement Presentation –

The government-wide financial statement columns (i.e., statement of net assets and statement of activities) are reported using the economic resource measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grant and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized when it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the year. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

C. Assets, Liabilities, and Fund Balance or Net Assets –

Cash And Cash Equivalents - Cash equivalents are short-term investments that are readily convertible to cash or have a maturity date of 90 days or less from the date of purchase. Cash equivalents include investment trust funds and are recorded at cost, which approximates market value. The investment trust funds have the general characteristics of demand deposit accounts in that the Road Commission may deposit additional cash at any time and effectively may withdraw cash at any time without prior notice or penalty.

CHEBOYGAN COUNTY ROAD COMMISSION
A Component Unit of Cheboygan County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

Inventories - Inventories of road materials and equipment parts are recognized using the consumption method (inventories are recorded as expenditures when they are used). Inventories are stated at average cost.

Prepaid Items – Certain payments to vendors (particularly for insurance coverage) reflect costs that are applicable to a future period and are recorded as prepaid items.

Capital Assets – Capital assets, which include property, plant, equipment, and infrastructure are reported in the government-wide (statement of net assets) financial statements. Capital assets for land, buildings and improvements and all equipment except road equipment are defined by the Road Commission as assets estimated useful life in excess of 2 years. No minimum cost is used to record road equipment capital assets and infrastructures are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are recorded in the governmental fund statements as capital expenditures at the time of purchase.

Depreciation is computed on the sum-of-the-years digits method for road equipment, and straight-line method for all other fixed assets over the estimated useful life of the related asset.

The estimated useful lives are as follows:

Buildings and Improvements	40 years
Equipment	5- 8 years
Roads	8-30 years
Bridges	25-50 years

Infrastructure is reported retrospectively from 1980, except for right-of-ways and bridges which are required to be reported despite the date of purchase. Roads are removed from the capital assets at the time the group of individually recorded roads have been fully depreciated.

Depletion is calculated as the amount of prorated cost or other indicated value assigned to the extracted portion of a natural resource.

The Uniform Accounting Procedures Manual for Michigan County Road Commissions provides for recording depreciation and depletion in the governmental fund statements as a charge to various expenditures accounts, and a credit to a depreciation/depletion credit account. Accordingly, the annual depreciation/depletion expenditures do not affect the available operating equity of the governmental fund statements.

CHEBOYGAN COUNTY ROAD COMMISSION
A Component Unit of Cheboygan County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

Advances From The State Of Michigan - The State of Michigan advances funds on a State maintenance agreement it has with the Cheboygan County Road Commission for specified maintenance, which the Road Commission will perform during the year, and for equipment purchases. These advances are considered current liabilities because they are subject to repayment annually upon audit by the State of Michigan.

Accrued Vacation And Sick - In accordance with contracts negotiated with the various employee groups of the Road Commission, individual employees have a vested right upon termination of employment to receive payments for unused sick leave and vacation under formulas and conditions specified in the contracts. All amounts vested are accrued in the government-wide statements (statement of net assets).

Deferred Revenues – In both the government-wide and the fund financial statements revenue received or recorded before earned is recorded as deferred revenue. In addition, in the governmental fund statements revenues that are not both measurable and available are recorded as deferred revenues.

Equipment Rental - The Michigan Department of Transportation requires that the cost of operating equipment, including depreciation, be charged (allocated) to the various activities. The effect of this allocation is offset to equipment expenditures/expenses.

Estimates - In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS:

A. Explanation of differences between the governmental fund statement and the government-wide statement of net assets (Page 8).

Fund Balance – governmental fund	\$ 1,991,556
Capital assets used in the governmental fund activities that are not financial resources and therefore not reported in the governmental fund financial statements	
Add – capital assets	32,921,530
Deduct – accumulated depreciation	(11,764,625)
Long-term liabilities that are not due in the current period therefore not reported in the governmental fund statements	(3,387,610)
Accrued interest payable on long-term liabilities not reported in the governmental fund statements	(85,720)

CHEBOYGAN COUNTY ROAD COMMISSION
A Component Unit of Cheboygan County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 2 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS – (cont’d):

Prepaid expenses not reported in the governmental fund statements	\$ 240,489
Net Assets	\$ 19,915,620

- B.** Explanation of differences between the governmental fund statement of revenues, expenditures and changes in fund balance and the government-wide statement of activities (Page 9).

Excess of revenues over expenditures - governmental fund statement	\$ 519,784
The governmental fund statements report capital outlay as expenditures, however, in the government-wide Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense	
Add – capital outlay and infrastructure	5,360,277
Deduct – retirements	(4,501)
Deduct – depreciation	(1,592,522)
Revenues are deferred in the governmental fund statements because they do not provide current financial resources however are reported in the government-wide Statement of Activities	
	(86,126)
Bond proceeds reported as another financing source in the governmental fund statements, but not in the government-wide statements where it is reported as long-term liability	
	(3,060,000)
Interest expense adjustment for accrual reported in the government-wide Statement of Activities when the liability is incurred and reported in the governmental fund statements only when payment is due	
	(85,720)

CHEBOYGAN COUNTY ROAD COMMISSION
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 2 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS – (cont’d):

Prepaid expense adjustment not reported in the governmental fund statements	\$ 84,810
Accrued vacation and sick time expenses not reported in the governmental fund statements because they will not be paid with current financial resources	(32,728)
Change in Net Assets	<u>\$ 1,103,274</u>

NOTE 3 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY:

Auditing and Reporting –

The audit was performed in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States as described in the Independent Auditor's Report, but, also with the standards as provided in Act No. 71 of Public Acts of 1919, Section 21.41 of the Michigan Compiled Laws.

The financial statements were prepared in accordance with accounting principles generally accepted in the United States of America as described in the Independent Auditor's Report, but also with applicable rules of the Michigan State Department of Transportation.

Budgetary Compliance –

The Road Commission Manager prepares from data submitted by the administrative staff, a proposed operating budget for the calendar year commencing January 1. The operating budget includes proposed expenditures and resources to finance them.

Prior to December 31, the proposed budget is presented to the Board of County Road Commissioners. The Board holds a public hearing and may add to, subtract from or change appropriations. The budget is then legally enacted through passage of a Board of County Road Commissioners Resolution.

The Road Commission's approved budget was adopted at the activity level. This is the legally-enacted level under the State of Michigan Uniform Budgeting and Accounting Act since amendments to the budget at the activity level must be approved by the Board of County Road Commissioners. The Road Commission does not employ encumbrance accounting as an extension of formal budgetary integration. All annual appropriations lapse at year end.

Michigan Public Act 621 of 1978, Section 18(1) as amended, provides that a governmental unit shall not incur expenditures in excess of the amount appropriated at the legally adopted level. During the year ended December 31, 2004, the Road Commission had three expenditures over budget as reported on the Statement of Governmental Fund Revenues, Expenditures and Changes in Fund Balance – Budget and Actual.

CHEBOYGAN COUNTY ROAD COMMISSION
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 4 - DEPOSITS AND INVESTMENTS:

The Uniform Accounting Procedure Manual for Michigan County Road Commissions provides that the County Treasurer maintain the cash of the Road Commission. All Road Commission receipts are deposited with the Cheboygan County Treasurer's Office, and in order to make disbursements, the Cheboygan County Road Commission requests the County Treasurer to transfer the required funds to an imprest vendor or payroll checking account. Also, in order to invest cash, a request is made of the County Treasurer.

In accordance with Act 20 PA 1943 as amended by Act 196 PA 1997, the County Treasurer is authorized to invest the Road Commission surplus funds in the following types of investments:

- a) In bonds, securities and other obligations of the United States or an agency or instrumentality of the United States.
- b) In certificates of deposit, savings accounts, deposit accounts or depository of a financial institution, but only if the financial institution is eligible to be a depository of funds belonging to the State under a law or rule of this State or the United States.
- c) In commercial paper rated at the time of purchase within the two (2) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
- d) In the United States government or federal agency obligations repurchase agreements.
- e) In bankers acceptances of United States banks.
- f) In obligations of the State of Michigan or any of the political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.
- g) In mutual funds registered under the investment company Act of 1940, with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- h) In investment pools organized under the surplus funds investment act, 367 of 1982.
- i) In investment pools organized under the local government investment pool act, 121 of 1985.

Deposits -

As a component unit of Cheboygan County, all Road Commission cash is part of the accounts maintained by Cheboygan County. However, the Road Commission by State statute has funds allocated to it by the State of Michigan for its exclusive use and control. As a result, funds of the Road Commission have separate insurance coverage.

CHEBOYGAN COUNTY ROAD COMMISSION
A Component Unit of Cheboygan County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 4 - DEPOSITS AND INVESTMENTS – (cont'd):

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000.

As of December 31, 2004, the carrying amount of the Road Commission's deposits is \$889,094 and the bank balance is \$932,502. The bank balance is classified by credit risk as follows:

Demand accounts – insured by FDIC	\$ 76,368
Savings/Certificates of deposit – insured by FDIC	212,479
Savings/Certificates of deposit – uninsured and uncollateralized	<u>643,655</u>
	<u>\$ 932,502</u>

The County believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the County evaluates each financial institution and assesses the level of risk. The County uses only those financial institutions with an acceptable estimated risk level as depositories.

Investments –

The Road Commission at December 31, 2004 held \$71,284 in a financial institution investment pool that is not evidenced by securities that exist in physical or book entry form. The investment pool account is registered with the Securities and Exchange Commission and the fair value of the County's portion in the investment pool is the same as the value of the investment pool shares. The investment pool has been reported in the financial statements as a cash equivalent because it has the general characteristics of demand deposit accounts in that the County may deposit additional cash at any time and effectively may withdraw cash at any time without prior notice or penalty. The investment pool is recorded at cost which approximates fair value.

The caption cash and cash equivalents – imprest of \$300 on the Balance Sheet represents petty cash.

NOTE 5 – INVENTORIES:

The Inventory balance of \$724,518 at December 31, 2004 consisted of \$514,368 of road materials and \$210,150 of equipment parts and materials.

CHEBOYGAN COUNTY ROAD COMMISSION
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 6 - FEDERAL AWARDS:

It is required by the Michigan Department of Transportation (MDOT) that Road Commissions report total federal awards for Highway Research, Planning and Construction pertaining to their County. However, only the federal awards applicable to force account expenditures is required to be audited for compliance under the Single Audit Act through Road Commission procurement. The reason for this requirement is that the Road Commission is required to have accounting and administrative control over the force account portion while the balance is administered by MDOT.

During the year ended December 31, 2004, the Road Commission of Cheboygan County had less than \$300,000 of force account expenditures applicable to federal awards (local force revenue). As a result, an audit for compliance under the Single Audit Act has not been performed.

The federal revenues of \$1,107,720 represents the Department of Transportation Federal Highway grant money expended on public road improvement projects which were administered by the Michigan Department of Transportation, however required to be reported by the Road Commission.

NOTE 7 – CAPITAL ASSETS:

Capital assets activity for the current year was as follows:

	Balance January 1, 2004	Additions	Deletions	Removals	Balance December 31, 2004
Capital Assets, not being depreciated –					
Land	\$ 141,355	\$ 117,400	\$ -	\$ -	\$ 258,755
Land Improvements	6,353,621	547,970	-	-	6,901,591
Right of Ways	83,182	4,126	-	-	87,308
Construction in Progress	<u>-</u>	<u>18,837</u>	<u>-</u>	<u>-</u>	<u>18,837</u>
Total Capital Assets, not being depreciated	<u>6,578,158</u>	<u>688,333</u>	<u>-</u>	<u>-</u>	<u>7,266,491</u>
Capital Assets, being depreciated –					
Buildings and improvements	863,717	2,515,900	127,811	-	3,251,806
Road Equipment	6,232,339	221,415	39,019	-	6,414,735
Shop Equipment	98,397	135,552	2,410	-	231,539
Office Equipment		76,341	5,533	2,019	-
79,855					
Engineering equipment	58,972	1,254	-	-	60,226
Yard and storage	134,369	100,229	40,374	-	194,224
Infrastructure -					
Roads	9,237,055	1,409,065	-	-	10,646,120
Bridges	4,459,071	282,996	-	20,630	4,721,437
Depletable assets –					
Gravel pits	<u>27,085</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>27,085</u>
	<u>21,187,346</u>	<u>4,671,944</u>	<u>211,633</u>	<u>20,630</u>	<u>25,627,027</u>

CHEBOYGAN COUNTY ROAD COMMISSION
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 7 – CAPITAL ASSETS – (cont'd):

	Balance January 1, 2004	Additions	Deletions	Removals	Balance December 31, 2004
Less – accumulated depreciation for –					
Buildings	\$ 738,629	\$ 50,075	\$ 123,349	\$ -	\$ 665,355
Road Equipment	4,490,798	657,976	39,019	-	5,109,755
Shop Equipment	78,532	4,852	2,401	-	80,983
Office Equipment	45,014	9,346	1,989	-	52,371
Engineering Equipment	50,250	5,675	-	-	55,925
Yard and Storage	93,631	6,945	40,374	-	60,202
Infrastructure –					
Roads	3,403,358	760,483	-	20,630	4,143,211
Bridges	1,456,309	97,170	-	-	1,553,479
Depletable Assets	<u>15,332</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>15,332</u>
	<u>10,371,853</u>	<u>1,592,522</u>	<u>207,132</u>	<u>20,630</u>	<u>11,736,613</u>
Total Capital Assets, being depreciated, net	<u>10,815,493</u>	<u>3,079,422</u>	<u>4,501</u>	<u>-</u>	<u>13,890,414</u>
Governmental activity capital assets net	<u>\$17,393,651</u>	<u>\$3,767,755</u>	<u>\$ 4,501</u>	<u>\$ -</u>	<u>\$ 21,156,905</u>

The State of Michigan does not allow depreciation to be recorded in the governmental fund statements of the Road Commission on salt shed and salt lagoon construction costs reimbursed by the State. However, the depreciation of \$7,337 on the salt barn is recorded in the government-wide statement of activities. The source of capital assets is from Road Commission operations.

NOTE 8 – LONG-TERM LIABILITIES:

The following is a summary of the changes in long-term liabilities of the Road Commission for the year ended December 31, 2004:

	Balance Jan. 1, 2004	Additions	Deletions	Balance Dec. 31, 2004	Due Within One Year
2004 MTF Bond	\$ -	\$ 3,060,000	\$ -	\$ 3,060,000	\$ 55,000
Accrued vacation and sick	<u>294,882</u>	<u>32,728</u>	<u>-</u>	<u>\$ 327,610</u>	<u>-</u>
	<u>\$ 294,882</u>	<u>\$ 3,092,728</u>	<u>\$ -</u>	<u>\$ 3,387,610</u>	<u>55,000</u>

CHEBOYGAN COUNTY ROAD COMMISSION
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 8 - GENERAL LONG-TERM DEBT – (cont'd):

Significant details regarding outstanding long-term liabilities are presented below:

The County of Cheboygan, Michigan issued \$3,060,000 of Michigan Transportation Fund Bonds, Series 2004, date May 1, 2004, pursuant to the provision of Act 51, Public Acts of Michigan of 1951, as amended. The Bonds are issued in anticipation of and are payable from monies derived from state collected taxes returned to the Road Commission from the Michigan Transportation Fund for highway construction, construction, and work incidental thereto pursuant to Act 51.

Principal on the bonds is due on February 1, 2005 through 2029 with interest due semi-annually on February 1 and August 1 at interest rates ranging from 3.00% to 4.75%.

The annual requirements to amortize the bond liability outstanding at December 31, 2004 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 55,000	\$ 157,916	\$ 212,916
2006	85,000	124,068	209,068
2007	85,000	121,518	206,518
2008	90,000	118,892	208,892
2009	90,000	116,192	206,192
2010-2014	485,000	532,912	1,017,912
2015-2019	575,000	429,814	1,004,814
2020-2024	710,000	292,084	1,002,084
2025-2029	<u>885,000</u>	<u>109,011</u>	<u>994,011</u>
	<u>3,060,000</u>	<u>2,002,407</u>	<u>5,062,407</u>

Accrued Sick and Vacation -

The accrued sick and vacation represents vested sick and vacation benefits due Road Commission employees upon termination of employment with the Road Commission. The balance at December 31, 2004, is \$307,805 for sick, and \$19,805 for vacations. All amounts vested have been accrued on the government-wide statements.

NOTE 9 – OPERATING LEASES:

The Road Commission leases two pieces of equipment for \$38,340 annually with payments due in quarterly installments of \$9,585. The leases may be cancelled by the Road Commission if funding is reduced or eliminated with no penalty or expense to the Road Commission. The leases expire in August of 2006 with final payment of \$101,000 each.

CHEBOYGAN COUNTY ROAD COMMISSION
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 10 - EMPLOYEE PENSION PLAN:

Plan Description -

The Cheboygan County Road Commission participates in the Michigan Municipal Employees Retirement System (MERS); a multiple employer state-wide, public employee defined benefit pension plan created under Public Act 135 of 1945, and now operates under Public Act 220 of 1996, and the MERS Plan Document as revised. MERS was established to provide retirement, survivor and disability benefits on a voluntary basis to the State of Michigan's local government employees. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 N. Canal Road, Lansing, Michigan 48917 or by calling (800) 767-6377.

Funding Policy -

The plan adopted by the Board of County Road Commissioners requires general employees to contribute 4.36% of their annual compensation with 0% to 2% required for salaried and supervisory employees. The Road Commission is required to contribute at an actuarially determined rate; the weighted average rate for 2005 was 16.79% for general employees, 43.16% for salaried employees. The contribution requirements of plan members and the Road Commission are established and may be amended by the Road Commission, depending on the MERS contribution program adopted by the Road Commission.

Annual Pension Costs -

For the year ended December 31, 2004, the Road Commission's annual pension cost of \$432,047 for MERS was equal to the Road Commission's required and actual contributions. The required contribution was determined as part of the December 31, 2002 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions include (a) a rate of return on the investment of present and future assets of 8% per year compounded annually, (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation, (c) additional projected salary increases ranging from 0% to 4.16% per year, depending on age, attributable to seniority/merit, and (d) the assumption that benefits will increase 2.5% per year (annually) after retirement, for persons under Benefit E-1 or E-2. The actuarial value of MERS assets was determined using techniques on a basis of evaluation method that assumes the funds earn the expected rate of return (8%) and includes as an adjustment to reflect market value. Unfunded actuarial accrued liabilities are amortized as a level percent of payroll over a period of 30 years for positive unfunded liabilities and 10 years for negative unfunded liabilities.

CHEBOYGAN COUNTY ROAD COMMISSION
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 10 - EMPLOYEE PENSION PLAN – (cont'd):

Three-Year Trend Information

Fiscal Year Ending December 31,	Annual Pension Costs (APC)	Percentage of APC Contribution	Net Pension Obligation
2002	\$ 344,876	100 %	-
2003	450,361	100	-
2004	432,047	100	-

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded (Overfunded) Accrued Liability (UAAL) (b-a)	Funded Ratio (AAL) (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll [(b-a)/c]
2001	7,579,105	10,925,778	3,346,673	69	1,829,913	183
2002	7,669,330	11,695,052	4,025,722	66	1,934,672	208
2003	8,117,500	12,858,596	4,741,096	63	1,866,822	254

NOTE 11 - POSTEMPLOYMENT BENEFITS:

In addition to the pension benefits described in Note 9, the Cheboygan County Road Commission provides postemployment health care to eligible employees who retire from the Road Commission on or after attaining retirement age with at least ten years of service. Expenditures for postemployment health care benefits are recognized on a pay-as-you-go basis. For the year ended December 31, 2003 these costs amounted to approximately \$306,734 with 34 eligible participants.

NOTE 12 - ADVANCES:

Advances of \$488,456 at December 31, 2004, are advanced by the State of Michigan for working capital of \$84,883 and equipment purchases of \$403,573 under a road maintenance contract the Road Commission has with the Michigan Department of Transportation.

Both advances are adjusted annually by the State and must be repaid if the maintenance contract is canceled.

NOTE 13 – SUMMARY OF DISCLOSURE OF SIGNIFICANT CONTINGENCIES:

In the normal course of its operations, the Cheboygan County Road Commission often becomes a party to various claims and lawsuits. In the opinion of the Road Commission's legal counsel, if any of these claims should result in an unfavorable resolution to the Road Commission, the Road Commission's liability would be limited to its deductible under insurance policies.

CHEBOYGAN COUNTY ROAD COMMISSION
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 13 – SUMMARY OF DISCLOSURE OF SIGNIFICANT CONTINGENCIES – (cont'd):

The insurer would pay the losses, and there should be no material effect on the financial position of the Road Commission.

Also, as part of its trunkline maintenance agreement with the State of Michigan, the Road Commission's costs charged to the State are subject to audit. The amounts, if any, which may have to be paid back to the State cannot be determined at this time, although the Road Commission expects such amounts, if any, to be immaterial.

NOTE 14 - RISK MANAGEMENT:

The Road Commission is a member of the Michigan County Road Commission Self-Insurance Pool established pursuant to the laws of the State of Michigan, which authorize contracts between municipal corporations (inter-local agreements) to form group self-insurance pools, and to prescribe conditions to the performance of these contracts.

The Michigan County Road Commission Self-Insurance Pool was established for the purpose of making a self-insurance pooling program available for Michigan County Road Commissions which includes, but is not limited to, general liability coverages, auto liability coverages, property insurance coverages, stop loss insurance protection, claims administration, and risk management and loss control services pursuant to Michigan Public Act 138 of 1982.

The Cheboygan County Road Commission pays an annual premium to the Pool for property (buildings and contents) coverage, automobile and equipment liability, errors or omissions liability and bodily injury, property damage and personal injury liability. The agreement for the formation of the Pool provides that the Pool will be self-sustaining through member premiums and will purchase both specific and aggregate stop-loss insurance to the limits determined necessary by the Pool Board.

The Road Commission is also a member of the County Road Association Self-Insurance Fund for workers' compensation self-insurance. The fund is a municipal self-insurance entity operating within the laws of the State of Michigan. The fund has entered into reinsurance agreements providing for loss coverage in excess of amounts to be retained by the fund.

The Road Commission continues to carry commercial insurance for employee health and accident insurance, but has opted to participate in a self-insurance program that bases premiums on the Road Commission experience and provides for stop loss coverage. Premiums are adjusted every three months.

SUPPLEMENTARY INFORMATION

CHEBOYGAN COUNTY ROAD COMMISSION

A Component Unit of Cheboygan County

**DETAIL SCHEDULE OF REVENUES AND OTHER SOURCES
GENERAL OPERATING FUND
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003**

	2004	2003
Revenues:		
Permits -	\$ 51,395	\$ 55,706
Federal Sources -		
Bridge	165,254	397,364
D Funds	214,879	122,170
Surface Transportation Program (STP)	727,587	384,158
	<u>1,107,720</u>	<u>903,692</u>
State Sources -		
Motor Vehicle Highway Funds - Act 51 -		
Engineering	10,000	10,000
Primary roads	2,032,114	1,904,357
Local roads	1,812,528	1,735,392
Forest Road Money	119,637	119,638
Snow removal	137,485	133,779
Critical bridge	30,985	74,506
Rural primary money (Category D funds)	175,202	124,268
	<u>4,317,951</u>	<u>4,101,940</u>
Local Sources -		
Township contributions	539,277	456,918
Other contributions	95,522	191,971
	<u>634,799</u>	<u>648,889</u>
Charges for Services -		
Trunkline maintenance & nonmaintenance	1,989,408	1,703,116
Salvage Sales	4,665	888
	<u>1,994,073</u>	<u>1,704,004</u>
Interest	<u>20,377</u>	<u>17,268</u>
Other -		
Gain (loss) on equipment disposal	<u>(2,881)</u>	<u>33,523</u>
Total Revenues	\$ 8,123,434	\$ 7,465,022
Other Financing Sources:		
Bond Proceeds	<u>3,060,000</u>	<u>-</u>
Total Revenues and Other Sources	<u><u>11,183,434</u></u>	<u><u>7,465,022</u></u>

CHEBOYGAN COUNTY ROAD COMMISSION

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**DETAIL SCHEDULE OF EXPENDITURES
GENERAL OPERATING FUND
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003**

	<u>2004</u>	<u>2003</u>
Expenditures:		
Heavy Maintenance -		
Primary roads and structures	\$ 1,313,273	\$ 1,122,233
Local roads and structures	<u>977,351</u>	<u>1,565,887</u>
	<u>2,290,624</u>	<u>2,688,120</u>
Maintenance -		
Primary roads and structures, winter maintenance and traffic control	1,313,701	1,255,696
Local roads and structures, winter maintenance, and traffic control	<u>1,913,311</u>	<u>1,749,152</u>
	<u>3,227,012</u>	<u>3,004,848</u>
State Maintenance -		
Trunkline maintenance and nonmaintenance	<u>1,889,092</u>	<u>1,703,116</u>
Equipment -		
Direct	1,668,411	1,648,218
Indirect	596,388	428,668
Operating	289,704	237,675
Less - equipment rental	<u>(2,104,008)</u>	<u>(2,015,468)</u>
	<u>450,495</u>	<u>299,093</u>
Administrative -		
Administration	531,978	392,909
Less -		
State trunkline overhead	(174,513)	(159,474)
Handling Charges	-	(77)
Purchase discounts and other	<u>(5,728)</u>	<u>(2,954)</u>
	<u>351,737</u>	<u>230,404</u>
Capital Outlay -		
Land and Improvements	117,400	-
Buildings	2,515,900	30,293
Equipment	363,753	910,801
Yard and storage	100,229	43,161
Less -		
Depreciation	(727,532)	(756,427)
Equipment Retirements	<u>(4,501)</u>	<u>(147)</u>
	<u>2,365,249</u>	<u>227,681</u>
Debt Service -		
Principal retirement	-	210,000
Interest	(3,528)	14,910
Issuance cost	<u>92,969</u>	<u>224,910</u>
	<u>89,441</u>	<u>224,910</u>
Total Expenditures	<u><u>\$ 10,663,650</u></u>	<u><u>\$ 8,378,172</u></u>

CHEBOYGAN COUNTY ROAD COMMISSION

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SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES BY FUND BALANCE SUB-ACCOUNTS GENERAL OPERATING FUND FOR THE YEAR ENDED DECEMBER 31, 2004

	Primary	Local	County	Total
Revenues:				
Permits	\$ -	\$ -	\$ 51,395	\$ 51,395
Intergovernmental -				
Federal Sources	868,560	239,160	-	1,107,720
State Sources	2,285,336	2,032,615	-	4,317,951
Local Sources	40,496	592,935	1,368	634,799
Charges for services	-	-	1,994,073	1,994,073
Interest	-	-	20,377	20,377
Other	-	-	(2,881)	(2,881)
Total Revenues	<u>3,194,392</u>	<u>2,864,710</u>	<u>2,064,332</u>	<u>8,123,434</u>
Other Financing Sources:				
Bond Proceeds	<u>-</u>	<u>-</u>	<u>3,060,000</u>	<u>3,060,000</u>
Total Revenues and Other Sources	<u>3,194,392</u>	<u>2,864,710</u>	<u>5,124,332</u>	<u>11,183,434</u>
Expenditures:				
Heavy maintenance	1,313,273	977,351	-	2,290,624
Maintenance	1,313,701	1,913,311	-	3,227,012
State maintenance	-	-	1,889,092	1,889,092
Equipment - net	107,443	206,822	136,230	450,495
Administrative - net	167,464	184,273	-	351,737
Capital outlay - net	-	-	2,365,249	2,365,249
Debt Service -				
Interest and issuance costs	-	-	89,441	89,441
Total Expenditures	<u>2,901,881</u>	<u>3,281,757</u>	<u>4,480,012</u>	<u>10,663,650</u>
Excess of revenues and other sources over (under) , expenditures before optional transfers	292,511	(417,047)	644,320	519,784
Optional transfers	<u>(500,000)</u>	<u>500,000</u>	<u>-</u>	<u>-</u>
Excess of revenues over (under) expenditures after optional transfers	(207,489)	82,953	644,320	519,784
Fund Balance at January 1, 2004	<u>1,096,789</u>	<u>367,906</u>	<u>7,077</u>	<u>1,471,772</u>
Fund Balance at December 31, 2004	<u><u>\$ 889,300</u></u>	<u><u>\$ 450,859</u></u>	<u><u>\$ 651,397</u></u>	<u><u>\$ 1,991,556</u></u>

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of County Road Commissioners
of Cheboygan County
Indian River, Michigan

We have audited the financial statements of Cheboygan County Road Commission as of and for the year ended December 31, 2004, and have issued our report thereon, dated February 18, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Cheboygan County Road Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weakness. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Cheboygan County Road Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management and the Board of County Road Commissioners of Cheboygan County, Michigan and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script, reading "Stewart, Beauvais Whipple".

Certified Public Accountants

February 18, 2005